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E.O. 12958: N/A
TAGS: ETRD KIRP ECON EFIN EINV EAGR BR
SUBJECT: BRAZIL: SCENE SETTER, USTR AMBASSADOR RON KIRK VISIT TO SAO PAULO AND BRASILIA, SEPTEMBER 16 AND 17

¶1. (SBU) SUMMARY: The relationship between the United States and Brazil is productive and broad-based, with growing economic and trade ties. Excellent opportunities for increased bilateral trade cooperation exist, including issues raised in the recent CEO Forum. Brazil has also prioritized concluding the Doha round of World Trade Organization (WTO) negotiations. The Government of Brazil (GOB) has played a constructive role in the G20. Fora including the Economic Partnership Dialogue between State and the Ministry of External Affairs (MRE) and the Commercial Dialogue between Commerce and the Ministry of Industry and Trade (MDIC) have provided opportunities for increased positive bilateral economic and commercial cooperation. Recent events including the WTO cotton decision and orange juice case, issues surrounding the on-going FX-2 aircraft bid process, and Brazil's suspicion over U.S. access to military bases in Colombia, may color the atmospherics of your trip, particularly your interaction with the press. Private sector interlocutors may raise the recently announced GOB-proposed legislation that would provide a significant government role in development of potentially vast new off-shore oil resources. The visit provides an important opportunity to highlight the potential for increased bilateral cooperation, emphasizing that specific trade disputes need not define our overall positive relationship. As Brazil's ambition and ability to engage on issues of global importance increases, the value of engaging Brazil and finding areas of mutual interest for cooperation increases. END SUMMARY

POLITICAL OVERVIEW

¶2. (SBU) With democracy re-established in 1988 after decades of military dictatorship, Brazil's democratic institutions are generally strong and stable. President Luiz Inacio "Lula" da Silva remains a popular president -- one of the most popular in Brazil's history and indeed in the world today, with recent approval ratings still as high as 68 percent nearly seven years into his presidency. This sustained popularity is based on a combination of his personal connection with the country's lower classes, orthodox economic policies, and expanded social programs. Ongoing public scandals involving the leadership of the Senate and various members of congress have further eroded the legislature's power vis-a-vis the executive and its ratings among the Brazilian public. The court system remains cumbersome and unreliable, but has recently taken limited steps to curb impunity among public officials, which have been well received by a public accustomed to abuses by authorities. The Brazilian political elite and media are already focused on the October 2010 national elections for president, all 26 state governors, two-thirds of the senate, and all federal deputies. Lula is constitutionally barred from seeking a third term and has designated Civil Household (Prime) Minister Dilma Rousseff as his party's candidate to succeed him. At this point, Rousseff is a distant second in the polls to likely opposition candidate Sao Paulo Governor Jose Serra, but with a year to go, the race remains unpredictable.

¶3. (SBU) The United States and Brazil share the basic goals of fostering hemispheric stability and integration, promoting democracy and human rights, and preventing transnational illicit activity. The attainment of a permanent seat on the UN Security Council has been a central goal of Brazil's foreign policy under President Lula's government. Regionally, Lula has maintained Brazil's historic focus on stability, seeing good relations with all parties as the best way to achieve this goal. As a result, Brazil maintains an active dialogue with Venezuela and Cuba, has worked to foster good relations with Bolivia and Ecuador, and has stood firmly on the principle of respect for sovereignty in the region.

ECONOMIC OVERVIEW

¶4. (SBU) Brazil is the tenth largest economy in the world and received investment grade status from Standard and Poor's and Fitch in 2008. Annual Gross Domestic Product (GDP) grew 5.1 percent in 2008, and inflation was 5.8 percent. The global economic crisis eroded previous predictions for annual GDP growth for 2009 from four per cent to essentially flat or slightly negative. Despite this decline in immediate prospects, Brazil has thus far weathered the crisis better than most major economies and has recently shown signs of a recovery, led by strong domestic demand. Conservative macroeconomic policies in the years prior to the crisis, and targeted responses during the crisis -- including credit injections in the financial system and tax cuts on automobiles and consumer durables -- played a role in lessening the impact of the global crisis on Brazil.

¶5. (SBU) Brazil's relatively successful management of the crisis has encouraged GOB to engage proactively and constructively in the debate over how to handle the economic crisis including through the

G20 process. Brazil has called for increased regulation of the global financial system, increased global access to trade finance, and an expanded voice and vote for large emerging countries like Brazil in the International Financial Institutions.

¶6. (SBU) Brazil is a major producer and exporter. Agriculture makes up 36 percent of exports, and the agribusiness sector accounts for 25 percent of Brazil's GDP. Brazil is a leading exporter of soybeans, beef, sugar, coffee, and orange juice. Brazil also distinguishes itself as a major exporter of civilian aircraft, steel, and petrochemicals. The United States is Brazil's top trading partner overall, and China as of March of this year moved into first position as Brazil's primary export destination. Prior to the current financial crisis, U.S.-Brazil trade experienced significant annual growth surpassing USD 50 billion in 2008 -- Brazil typically experiences a slight positive balance in the trade relationship.

¶7. (SBU) Foreign direct investment (FDI) in Brazil is increasing, with inflows of USD 44 billion in 2008; USD 6.9 billion came from the United States. Brazilian investment in the United States almost tripled between 2001 (USD 1.4 billion) and 2006 (USD 3.9 billion). President Lula has been actively selling Brazil as a solid investment destination during the financial crisis due to its sound macroeconomic policies and relatively strong economy. Brazil is Latin America's biggest recipient of FDI, and in 2008 received roughly twice the volume of inflow than Mexico received.

¶8. (SBU) Despite progress in recent years, income distribution in Brazil remains grossly unequal, with 10 percent of the population holding over 50 percent of the nation's wealth. With a total population near 200 million, Brazil is also home to 50 percent of the people who live in extreme poverty in Latin America. President Lula's social programs, combined with formal sector job growth and real increases in the minimum wage, have reduced income inequalities each year since 2004.

OVERVIEW ON BRAZILIAN MEDIA AND PUBLIC ATTITUDES TOWARDS THE USA

¶9. (SBU) In terms of general public opinion, the election of Barack Obama as president seems to have influenced views of the United States in a positive way. An Office of Research Opinion Analysis

released in March 2009 found that seven-in-10 Brazilians believe the Obama presidency will be positive for Brazil and the world. Economically, Brazilians say their future lies with the United States and China. Majorities held a favorable view of the United States (57 percent) and saw bilateral relations as being good (65 percent). However, Brazilians have often seen the United States as an impediment to Brazil's aspirations for regional leadership. Pluralities said last year that politically and economically, the United States was as much a competitor as it was an ally and partner. As of January, half lack confidence in the United States' ability to deal responsibly with world problems.

¶10. (SBU) Brazilian journalists, generally speaking, are professional, balanced, and strive for objectivity. Many are evenhanded in their treatment of the United States, even if they do not personally agree with U.S. policies. Some mainstream Brazilian opinion writers demonstrate biases against U.S. policies, though the trend has started to change with the election of President Obama. A small segment of the Brazilian public accepts the notion that the United States has a campaign to subjugate Brazil economically, undermine it culturally, and occupy with troops at least part of its territory. Such attitudes and beliefs have influenced Brazilian reporting and commentary on issues such as the reestablishment of the U.S. Navy's Fourth Fleet (which has been characterized as a threat to Brazil), supposed U.S. nefarious intentions toward the Amazon and the "Blue Amazon" (seas where new oil discoveries were found) and most recently, the announcement on U.S. access to Colombian military bases. That said, the Brazilian media have reported favorably on U.S. efforts at the recent meeting of the General Assembly of the Organization of American States and the Summit of the Americas, and the Obama Administration overall, portending a change in perspective with regards to U.S. intentions in Brazil and the region at large.

¶11. (SBU) Specifically on trade, the mainstream press has been critical of the United States, asserting USG does not have a trade policy and that the United States is not committed to advancing the Doha Round. On the WTO cotton decision, Estado de Sao Paulo in separate articles characterized the USTR trip as focused on negotiating retaliation, and asserted cross-retaliation on IPR would be preferable to goods because withdrawing IP protection "would not hurt the Brazilian consumer" while goods retaliation potentially could. While Brazil is not a member of the WTO Government

Procurement Agreement and maintains its own domestic preference program, in the past the press was critical of Buy America provisions in U.S. measures to address the global economic crisis as protectionist.

SPECIFIC ISSUES: BILATERAL TRADE COOPERATION

¶12. (SBU) The GOB, including the Ministry of External Relations (MRE), the Ministry of Development, Industry and Trade (MDIC), and the External Trade Chamber (CAMEX) Secretariat, has indicated interest in exploring ways to deepen bilateral trade cooperation with the United States. While tariff negotiations could only occur in 4+1 format with Brazil's Mercosul partners, Embassy interlocutors agree there is scope for bilateral cooperation, with the potential to expand eventually to 4+1 cooperation if there is mutual interest. In areas of joint interest, Brazil and the United States could potentially make common cause in approaches to third countries. Some in the Brazilian trade associations (Sao Paulo-based FIESP and its umbrella association CNI) have indicated interest in more strategic bilateral engagement. Possible areas to explore include or that may be raised in your Sao Paulo private sector discussions:

Trade and Investment Framework Agreement (TIFA): There is a great deal of GOB interest, particularly in MDIC, in implementing the CEO Forum recommendation to pursue a TIFA with the United States. CAMEX is reviewing existing USG TIFAs, with a view to identifying preferred elements (NOTE: Mission has received feedback that the Uruguay TIFA, with its trade facilitation annex, is of particular interest). While GOB continues to resist Bilateral Investment Treaty negotiations, increasing Brazilian investment overseas is

fueling interest in engaging in some way more concretely on investment issues.

Joint Technical Barriers to Trade (TBT) and/or Sanitary and Phyto-Sanitary (SPS) cooperation: Opportunities exist for cooperation both on bilateral standards issues, and probably more attractively, in terms of getting positive movement, in jointly developing approaches to third countries such as China. Additionally, there is potentially scope for joint cooperation in less-developed countries, such as in Africa, in capacity-building to develop appropriate TBT/SPS rules and procedures.

Joint Agricultural Cooperation: Both Brazil and the United States are significant agricultural exporters. Opportunities exist to explore how the United States and Brazil can work together, to mutual benefit, to open third country markets. Brazil has sensitivities regarding U.S. agricultural subsidies; however, there could be common cause regarding barriers in China and the EU for our exports, including soy and beef. The United States can also consider re-approaching Brazil on its position on agricultural biotechnology, which is used domestically, but GOB does not actively engage internationally to support agricultural biotechnology in Africa and elsewhere.

Services: While the services sector represents a potential growth area in Brazil, there is still an undeveloped lobbying effort within Brazil. The sector has been relatively non-vocal in pressing for GOB multilateral liberalization engagement. The USG could encourage further bilateral engagement to reinforce mutual interests beyond manufacturing and agriculture.

Trade Facilitation: GOB and Brazilian industry have provided significant feedback that intensified cooperation on trade facilitation would be welcome. USDOC and CAMEX have sponsored two week-long trips this year for GOB agencies to learn how customs clearance and inter-agency coordination works in the United States, and another is scheduled for November. Other activities include seminars held by CBP in Brazil for Brazilian Customs and the Federal Police, and an upcoming Commercial Dialogue Trade Facilitation meeting to be held in Manaus, Brazil in November. The CEO Forum has also prioritized trade facilitation.

Anti-Dumping/Trade Enforcement: While GOB disagrees with U.S. anti-dumping methodology and recently initiated a first request on orange juice at the DSB, Brazil itself is now using the anti-dumping tool more intensively and is particularly concerned about Chinese practices. Opportunities may exist for United States-Brazil bilateral dialogue and cooperation on the subject.

Innovation: Brazilian government officials continue to state that innovation is one of their highest priorities and have indicated interest in cooperation on specific initiatives. Continuing our bilateral discussions on innovation also provides the USG with an excellent opportunity to highlight the importance of intellectual

property rights (IPR) as a pillar of innovation. While some Ministries' officials acknowledge the importance of IPR to innovation, GOB writ large does not consistently draw a link between IPR and the development and commercialization of new technology and invention. MRE consideration of cross-retaliation on IPR (in the WTO cotton dispute) could be perceived as a lack of commitment to the long-term value of IPR to attracting and promoting innovation as a key element of economic growth. MRE and Casa Civil interlocutors will not eagerly seize on the theme of innovation's ties to IPR protection. However, MDIC and CAMEX are well aware of IPR's importance to economic development and growth, and FIESP has indicated concerns regarding proposals to cross-retaliate on IPR in the cotton case.

SPECIFIC ISSUES: WTO COTTON DECISION

¶13. (SBU) Since the August 31 WTO cotton ruling, there has been a range of opinions across the public and private sectors regarding what form the Brazilian retaliation could take. The Sao Paulo business federation, FIESP, will likely have a muted message, not

wanting the issue to become a barrier to a good trade relationship with the United States. However, others in the business community, including the author of the case who is now the President of the Brazilian Pork Exporters Association, have publicly indicated that Brazil has not taken advantage of the ruling and should make a stronger statement on how it plans to retaliate against the United States. The retaliation strategy is under active discussion in the CAMEX interagency process, with widely divergent views on whether threatening to or actually moving to cross-retaliate on services or IPR is in the best interests of Brazil. (NOTE: CAMEX (the External Trade Chamber) membership includes MDIC (chair), Casa Civil, MRE, Finance, Agriculture, Planning, and Agricultural Development Ministers. CAMEX's mandate includes decisions on trade defense measures; trade facilitation; common external tariff changes decisions; export guarantees; international negotiations; and trade security. END NOTE) We understand MDIC is against IPR cross-retaliation, while Ministries such as Agriculture are supportive. While the Ministry of Health is not a CAMEX member itself, its views on opportunities to increase access to generic pharmaceutical production are known. The next CAMEX meeting to discuss is scheduled for September 22.

SPECIFIC ISSUES: DOHA ROUND

¶14. (SBU) Brazil has been a significant voice in the WTO's Doha Round negotiations and concluding Doha remains a high priority for Brazil. Brazil's willingness to break ranks with its Mercosul partner Argentina and agree to the December 2008 modalities texts was seen as a major step forward in Brazil's willingness to engage more concretely on the multilateral stage in support of its own economic national interest despite competing pressures from Mercosul and G77 relationships. However, Brazil has been clear that while it is interested to hear what specific access USG seeks, it is reluctant to engage in bilateral negotiations on scheduling. Amorim has been vocal in the press alleging that the USG considers progress to date to represent a "floor" on market access and a "ceiling" on subsidies. GOB, reflecting FIESP/CNI industry positions, has been resistant to WTO sectorals, including electronics or chemicals. Amorim's public rhetoric is increasingly putting responsibility for progress on the Doha Round on the USG's shoulders.

SPECIFIC ISSUES: GSP

¶15. Private sector representatives at your Sao Paulo AmCham event or business roundtable may raise this issue. Industry keeps a close eye on developments in the US Congress on GSP renewal, and strongly advocates remaining in the GSP program.

SPECIFIC ISSUES: LABOR SKEPTICISM ON TRADE

¶16. (SBU) Brazil has a strong organized labor movement with close connections to the state and particularly to President Lula's Worker's Party (PT) government. The major unions support the GOB, which continues to seek to protect Brazil's labor markets. The Unified Workers Central (CUT) and the Union Force (Forca Sindical or FS) both represent many metal workers, who serve the highly protected automobile industry. The General Union of Workers (UGT) was originally founded as an offshoot of FS and represents many service workers and those in the energy sector. Consequently, labor representatives are generally free trade skeptics and critics. The CUT is a strongly leftist, ideological organization, many of whose members still see the United State as an "imperialistic" power bent on economic domination of other regions, while FS is more moderate. Nonetheless, a recent July conference organized by FS featured a number of speakers who portrayed the United States and its free

trade policies as the origin point for the ongoing global financial crisis.

SPECIFIC ISSUES: DEPARTMENT OF LABOR LISTS ON GOODS PRODUCED BY FORCED LABOR AND/OR CHILD LABOR

¶17. (U) On September 10, 2009, the Department of Labor released: (1) a list of goods produced by forced labor or child labor in various countries, as mandated by the Trafficking Victims Protection

Reauthorization Act (TVPRA) of 2005; (2) a list of goods produced by forced or indentured child labor, as mandated by E.O. 13126 of 1999; and (3) DOL's 2008 Findings on the Worst Forms of Child Labor. The first list for Brazil contains the following goods: bricks, cattle, ceramics, charcoal, cotton, footwear, manioc/cassava, pineapples, rice sisal, sugarcane, timber, and tobacco. The second list contains one product for Brazil: charcoal. The GOB will not respond officially to any reporting by third countries on "alleged human rights violations in Brazil;" it comments only on reports produced by multilateral organizations to which Brazil belongs, such as the UN or OAS. In our demarche to the GOB we made the following points: the TVPRA List is to promote efforts to eliminate forced and child labor, not to serve as a legal basis for an import ban; and the E.O. List is an "initial determination," not a final list, and governments (and others) have 90 days to submit comments, if they wish.

SPECIFIC ISSUES: THE CEO FORUM

¶18. (SBU) In addition to TIFA, trade facilitation, GSP, and Doha priorities identified above, the July meeting of the CEO Forum identified priority recommendations on the Information Technology Agreement, standards to harmonize biofuels, and Haiti and Africa development cooperation. Framing these priorities in terms of CEO Forum support will be key in focusing Rousseff's interest. In addition to the suggestions above for possible TBT/SPS cooperation in Africa, MRE may raise Haiti textiles and access to U.S. Hope II, an issue of keen interest to some FIESP members. USTR may wish to inquire where MRE's draft legislation on establishing a similar program in Brazil stands (all indications to date are that no draft yet exists). CNI/FIESP support CEO Forum recommendations for a bilateral tax treaty (BTT). BTT negotiations are stalled and are unlikely to make progress in the current election cycle climate. Brazilian industry has commissioned a study evaluating the positive economic impact of a BTT with the United States, due in the near term. With respect to investment, the USG and the Brazilian government have had productive consultations on Bilateral Investment Treaty (BIT) elements, although Brazil is still cautious about negotiating BITs given historical congressional opposition. CNI remains cautious about the value of BITs, seeing them as a constraint on industrial policy, but acknowledges the question needs further consideration as Brazil's overseas FDI increases.

SPECIFIC ISSUES: CLIMATE CHANGE

¶19. (SBU) After intensive lobbying from senior USG officials and pressure from other countries and domestic constituencies, President Lula announced a major shift in Brazil's position in the international climate change negotiations. In early September he said that Brazil will agree to an emissions reductions number and Minister of External Relations Amorim has said the same. This represents a significant advance over Brazil's previous position that only the developed countries should have emissions reductions targets and the developing ones needed to preserve room for growth. Brazil, however, insists that developed countries provide substantial technology transfer and financial assistance to developing countries so that they can take mitigation and adaptation measures.

¶20. (SBU) Brazil has opposed efforts to reduce or eliminate tariffs on "green" goods because the list of products in last year's initiative did not include biofuels.

SPECIFIC ISSUES: G7/8, G20, AND BRICS

¶21. (SBU) President Lula has said publicly that "the G7 alone is no longer in a position to make decisions that require truly globally coordinated responses" and noting that richer countries must recognize the growing clout of the BRICs. In Paris just before June's BRIC Summit in Yekaterinburg, FM Amorim said that the G-8 group is no longer representative of global political and economic forces. "The G-8 is dead, I have no doubt. I don't know how the burial will be. Sometimes that happens slowly." GOB remains sensitive that the G8 plus G5 format not be simply "inviting them in for coffee" to discuss decisions made by the G8. GOB prioritizes the G20 mechanism, while conceding consensus-building can be

cumbersome in this format. As a top-10 GDP country, contacts across GOB believe Brazil should be at the table in economic decision-making and has a valuable contribution to make. While the MRE coordinates G20 participation through its Economic Under Secretary, Sherpa Pedro Mendonca (who will attend the Amorim meeting), the G8/G5 process is tracked by its Political Under Secretary who covers North America/Europe, international organizations and environment, Vera Machado.

SPECIFIC ISSUES: PATENT PROTECTION -- PHARMACEUTICALS

¶22. (SBU) In July, the Brazilian National Institute of Industrial Property (INPI) rejected a patent application by California-based Gilead Sciences for its HIV drug Viread (scientific name: tenofovir). The patent rejection (which INPI told Gilead was "purely technical" but accompanied by "lots of pressure" from the Ministry of Health) could be the final step in allowing generic production of tenofovir, since the Ministry of Health (MOH) has already declared tenofovir to be a drug of public interest (April 2008) and established an inter-ministerial group to oversee the development of domestic production capacity (May 2009).

¶23. (SBU) Compulsory licensing has been a topic of much discussion since Brazil's 2007 decision to issue a compulsory license for Merck's HIV drug Stocrin (scientific name: efavirenz) and will continue to be so. However, Brazil's current stance against patents for incremental innovation in pharmaceuticals could have equally damaging results. Political pressure to reject patent applications for legitimately innovative drugs could be a new front in Brazil's push to cut health costs and bolster its generic drug industry, but will ultimately damage innovation and competitiveness. The USG has opportunities to engage on these issues with MRE (through the Economic Partnership Dialogue, the Bilateral Consultative Mechanism, and the Joint Consultative Mechanism[JCM]), MDIC (through the Commercial Dialogue), the Ministry of Science and Technology (which will lead the delegation to the next JCM), and through direct dialogue with the Brazilian Congress. Continuing to press innovation / competitiveness themes and raise their profile within the spectrum of stake-holder agencies will remain an important part of the strategy to affect progress on intellectual property protection in Brazil.

SPECIFIC ISSUES: ENERGY

¶24. (SBU) For Brazil, turning ethanol into a world commodity is a key aspect of increasing energy security. Though Brazilian ethanol is produced from sugar cane, Brazil sees expansion of the global ethanol market, regardless of feed stock, as a key interest. In March 2007, the United States and Brazil signed a Memorandum of Understanding (MOU) on biofuels cooperation. As a result, scientists and laboratories from the two countries are collaboratively researching next generation biofuels technologies. The United States and Brazil are also working together in various multilateral fora and the bilateral Commercial Dialogue to develop international biofuels standards and sustainability criteria. By making it easier to treat biofuels as a tradable commodity, these standards should foster the emergence of a vibrant global biofuels market. One irritant in the biofuels relationship is the 54 cents per gallon surcharge/tariff charged to imported biofuels. The Brazilians view the tariff as a measure which supports the corn ethanol industry to the detriment of more efficient sugar ethanol and regularly question why there should be a trade barrier to a clean fuel when there is no such barrier for petroleum. Another issue of concern is the proposed EPA rule making for a renewable fuel standard, which the Brazilians view as a non-tariff trade barrier. The Brazilians contest the modeling that was done to assess the greenhouse gas effects of fuel lifecycles and fear that such assessments could be used to unfairly impede exports of sugar-cane based biofuels from Brazil and the third countries where we are working together to establish domestic ethanol capabilities. In a welcome and well-received outreach effort, the EPA sent a team to Brazil in August to share their modeling methodology and hear the suggestions and concerns of the Brazilians.

¶25. (SBU) The discovery in 2007 of potentially massive offshore ("pre-salt") reserves of oil and gas estimated to contain between

30-80 billion barrels of oil equivalent could put Brazil within the top ten oil countries in terms of reserves. Though the discoveries have generated a great deal of excitement, industry observers caution that development will probably be slow in coming due to the expensive technological challenges involved with ultra-deepwater drilling, including a worldwide shortage of equipment such as drilling rigs.

¶26. (SBU) On August 31, the GOB unveiled its long-awaited proposal

for a new oil regime to administer its ultra deepwater pre-salt reserves. The proposal, which has been submitted to Congress for consideration, is destined to be highly politicized in this pre-election year and will likely undergo significant changes. The proposed legislation would replace the old concessions model and make state-owned Petrobras, with a required minimum of 30 percent participation, the operator on each block, responsible for choosing the contractors, technology, and personnel. It also creates a new government entity known as Petrosal to represent the government to manage the service contracts, and establishes a Social Fund to direct anticipated new oil state revenues against poverty alleviation, education, and scientific and technological innovation. Finally, the legislation provides for up to USD 50 billion to increase Petrobras' capacity to serve its designated role in the pre-salt exploration. U.S. oil companies operating in Brazil are concerned about the new nationalistic model and warn that it could make their future operations in Brazil commercially non-viable. They are particularly concerned about the potential for Petrobras' designation as sole operator to relegate them to essentially a financing role, and they cite a high degree of uncertainty regarding the model's potential impact on their investments in Brazil. ExImBank has extended a USD 2 billion line of credit to support US equipment and services in development of these reserves.

¶27. (U) FIESP is engaged in energy policy issues. FIESP will hold a conference in Sao Paulo October 5-6, their 10th annual International Energy Meeting, and on September 9 invited Secretary of State Clinton to be the keynote speaker. The focus of the conference this year will be on the links between Energy and Climate Change.

SPECIFIC ISSUES: FIGHTER AIRCRAFT PURCHASE

¶28. (SBU) An important watershed in achieving a more robust defense relationship with Brazil will be the decision on a next generation fighter aircraft. This is a $4 billion sale that would create an estimated 30,000 jobs in the United States and 5,000 in Brazil. Boeing's F-18 Super Hornet is a finalist along with the French Rafale and Swedish Gripen. After hosting French President Sarkozy in Brasilia for Brazilian Independence Day celebrations, President Lula announced on September 7 that Brazil is entering advanced negotiations to purchase 36 French-made Rafale fighters. The following day Brazil's Defense Ministry confirmed that the selection process was not closed and the U.S. contender is still under consideration. With a lower cost and stronger offset program, Boeing is well-positioned to win on the merits of its bid, but faces a presumption in the Brazilian political community that doing business with the United States is negative for Brazil. Boeing executives are working with FIESP to hold a Supplier's Conference September 15 and 16 to discuss industrial cooperation and seek Brazilian partner companies. While Brazilian businesses would prefer to build a relationship with Boeing, they have not yet made this view known to the political leadership. Despite significant USG efforts over the past two months to allay Brazilian concerns regarding technology transfer and USG trustworthiness as a partner, significant doubts remain, and further high-level USG support is needed to level the playing field.

SPECIFIC ISSUES: U.S. ACCESS TO MILITARY BASES IN COLOMBIA

¶29. (SBU) The announcement in August of a Defense Cooperation Agreement that sets conditions for continued U.S. military access to Colombian bases provoked a negative reaction from Venezuela that was picked up by the Brazilian press and government. Mischaracterized as the establishment of new U.S. bases, the agreement led many

Brazilian elites to worry that U.S. forces in Colombia might be used to launch operations in other countries or present a challenge to Brazilian interests. While we and the Colombians have taken pains to apprise the GOB of the facts, and the GOB has toned down its public rhetoric following a summit of South American presidents on August 28, the GOB still believes that the presence of U.S. personnel, even with full Colombian assent, is a destabilizing factor in the region.

COMMENT

¶30. (SBU) With growing economic clout and increasing interest in engaging in global economic issues, Brazil has seen its importance in the region and on the world stage expand significantly. Brazil's successful management of the global financial crisis has fueled additional self-confidence, prompting Brazil to speak with more authority in international fora such as the G-20. While the government is largely friendly and open to the United States, it does not and will not always see eye to eye with us. The sensitivities inherent to the relationship are especially evident

today within the context of the recent series of highly visible events played out in the press, including concerns over U.S. military intentions in the region (centering on suspicions that the United States harbors interests in Brazil's pre-salt oil reserves and Amazon resources), the WTO cotton decision, and the defense aircraft acquisition bid. Your visit provides a concrete opportunity for the United States to once again highlight the many positive economic and trade ties that unite the United States and Brazil, and re-direct the focus of our relationship toward expanding our strong bilateral cooperation.

KUBISKE